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Supreme Court of the United States.

OCTOBER TERM, 1952.

No.

PADUA ALARM SYSTEMS, INC.,
Petitioner,

v.

GENERAL TIME CORPORATION

AND

ANTHONY J. PARISSI,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT.

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Second Circuit, entered in the above-entitled case on September 17, 1952.

Opinions Below.

The opinion of the District Court (R. 35a-44a) is unreported. The opinion of the Court of Appeals (R. 100-132) is reported in 199 F. (2d) 351.

Jurisdiction.

The judgment of the Court of Appeals was entered on September 17, 1952 (R. 133). A petition for rehearing filed on October 14, 1952 (R. 134-143), was denied on October 31, 1952 (R. 147). The jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1254 (1).

Question Presented.

When a license requires the payment of royalty on patented and unpatented products and the licensee practices but one of several licensed patents, is the royalty to be attributed solely to the individual practiced patent, the unexercised privilege to practice the others being ignored as of no value, or is the royalty to be regarded as payment for the total privilege to practice all the licensed patents?

Statement.

Respondent Parissi was employed as an officer and director by Petitioner Padua for many years until 1941 when he severed his connections with Padua. During the time of his employment at Padua, Parissi developed, among others, four particular inventions and obtained patents thereon as follows: U.S. Patents Nos. 2,073,585, 2,073,586, 2,073,587 and 2,098,631. For convenience, these patents will be referred to herein as the "original four patents."

On September 26, 1939, Parissi and Padua entered into a contract (R. 13-16) whereby it was agreed that the parties would jointly exploit the four patents and that all royalties thereafter derived from licensing the "original four patents" would be payable to Padua and Padua would

remit 10% thereof to Parissi. This contract was unanimously held to be valid by the Courts below.

On July 3, 1939, Parissi, while still president and general manager of Padua, wrote to the Respondent General Time Corporation suggesting that General Time investigate manufacturing silent summons alarm clocks "embodying certain electrical circuits covered by U.S. patents granted to our Mr. Parissi" (R. 145, 146) and stating that the said patented circuits could be incorporated into clocks. This overture did not mature into a contract, however, until after Parissi had left the employ of Padua, when, on May 14, 1945, Parissi, independently of Padua, licensed General Time under the "original four patents" and under any improvement patents on the subject matter which might issue thereafter (R. 6-12). The royalty specified in the license, however, was not to be measured exclusively by General Time's manufacture of patented articles. By the agreement, General Time was to pay 5 cents "for each clock or other device" manufactured in accordance with the licensed patents or improvements thereon "*whether patented or unpatented*" (R. 7, 8).

General Time Corporation filed an action in the District Court for the Northern District of New York for a declaratory judgment determining whether the royalties paid and to be paid by it should be paid to Parissi or to the Petitioner, Padua Alarm Systems, Inc. (R. 2a-18a).

Padua claimed that the license contract between Parissi and General Time Corporation was a contract falling within the purview of the 1939 contract between Parissi and Padua and that the royalties paid under the license by General Time Corporation should be divided in accordance with the provisions of the prior contract (R. 27a-32a).

Parissi claimed that General Time Corporation had in fact only practiced the invention of the fifth patent relating to an alarm clock and that all royalties paid and to be

paid by General Time Corporation were attributable solely to the alarm clock patent and therefore belonged exclusively to Parissi (R. 21a).

The District Court held that the matter was controlled by the decision of this Court in *Automatic Radio Manufacturing Co., Inc.*, v. *Hazeltine Research, Inc.*, 339 U.S. 827, and in accordance with that opinion held that the royalties paid by General Time Corporation were consideration for the total privilege to practice any one of the licensed patents as well as the unpatented improvements. The opinion states (R. 43a):

> "The agreement contemplates a total consideration for a total privilege. It may not now be split either by the parties or the Court."

The Court of Appeals reversed, the majority opinion stating with respect to the royalties (R. 106):

> "All of these have been paid however for plaintiff's use of the silent alarm clock. Plaintiff has never made any devices under the four patents of 1937 and no issue arises in this case as to those patents."

No mention was made in the majority opinion or the concurring opinion of the fact that the license to General Time Corporation also covered *unpatented* products, although the license is specific on that point (R. 7a, paragraph 1 of the contract, line 6).

Judge Chase dissented, referring to the *Automatic Radio* case:

> "In the absence of any such provision for the allocation of royalties the failure of the licensee for the time being to make and sell anything covered by more than one patent does not alter the fact that the royal-

ties paid were not only for the protection needed presently but for the assurance of the protection as to the other patents whenever the licensee might need it. It agreed to pay the price it did to obtain freedom to do business for the life of the license without infringing any of the patents covered by it and, whether it would have paid that price for anything less is but a matter of conjecture." (R. 121.)

It should be noted at this point that, upon the execution of the license agreement and before any manufacture was undertaken, General Time paid an advance royalty of $5000 (R. 7a, paragraph 2).

Specification of Errors to be Urged.

The Circuit Court of Appeals erred—

1. In holding that royalties paid by a licensee practicing but one of several patents included in a license are regarded as attributable only to the patent which is practiced and in ignoring the fact that the freedom to practice the other patents at any time is a valuable right, the measure of which is at least a portion of the royalties which are paid.

2. In failing to give any recognition to the fact that the license to General Time Corporation, like the license in the *Automatic Radio* case,[1] exacted royalties from the licensee on unpatented as well as on patented products.

3. In failing to recognize that the decision of this Court in the *Automatic Radio* case requires application of the rule that royalties paid under a multiple patent license are

[1] *Automatic Radio Manufacturing Co., Inc.*, v. *Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

but the measure of the consideration for the total privilege granted by the license, particularly in cases where the license contract requires the payment of royalty for unpatented products.

4. In reversing the decision of the District Court.

Reasons for Granting the Writ.

1. In reaching its decision in the *Automatic Radio* case this Court had first to reach the conclusion that royalties paid under a multiple patent license are not solely attributable to the particular patent or patents in the license which may be practiced by the licensee.

The decision in the *Automatic Radio* case (*supra*) could not have been reached if this Court had not interpreted patent rights as including a value for the mere unexercised privilege to infringe patents. If this bare privilege had been worthless under the patent laws, then it would have been an extension of the patent monopoly for Hazeltine to use the leverage of its patents in such a way as to convert this valueless right into a means of producing revenue from unpatented products.

However, in that case this Court stated:

> "Petitioner cannot complain because it must pay royalties whether it uses Hazeltine patents or not. What it acquired by the agreement into which it entered was the privilege to use any or all of the patents and developments as it desired to use them. If it chooses to use none of them, it has nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's continuous research." (339 U.S. 827, at page 834.)

The foregoing is not dictum; it expresses a concept without which the final holding of legality of the license could not have been reached.

On the other hand, the decision of the Court of Appeals in the case at bar could not have been reached except on the theory that an unexercised privilege to practice a licensed patent is without value. The Court below has not denied that General Time is licensed under the "original four patents" or that the 1939 contract would entitle Padua to royalties paid by General Time and attributed to the "original four patents." Therefore the only way the Court below could have arrived at the conclusion that all royalties should be attributed to the clock patent was to treat the unexercised privilege to practice the others as totally without value, completely overlooking the fact that, by thus mating royalties to the patents actually practiced, it left the "unpatented improvements" entirely without support, although the decision of this Court in the *Automatic Radio* case very clearly states that it is only when the royalties are conceived of as total consideration for a total privilege that the exaction of royalty on unpatented products is justifiable. Consequently it seems abundantly clear that the decision of the Court of Appeals in this case is squarely in conflict with the *Automatic Radio* case.

2. Clearly, the question presented is of importance in the administration of the patent laws. While of course no definite figures can be stated, we believe this Court will take judicial notice of the obvious fact that the multiple licensing of patents is an extremely common transaction in the business world. *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637. *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436. *United States* v. *National Lead Co.*, 332 U.S. 319. *United States* v. *Line Material Co.*, 333 U.S. 287. To permit the decision of the Court of Appeals in the case at bar to stand will inevitably engender

manifold confusion and controversy. The Court of Appeals in the case at bar obviously visualizes an individual coin box attached to each patent in a license, the theory being that upon the practice of any such patent a royalty is deposited in the coin box. Consequently by inspecting the coin boxes at any time one achieves an automatic apportionment of royalty to the patent employed. But where the licensee practices two patents for a single device, into which coin box does he put the royalty? Of course, where the license requires the payment of royalty on *unpatented* products as well as on patented products, it is difficult indeed to see how the royalty could be apportioned, since there is no patent and no coin box corresponding to the unpatented product.

By providing a unit royalty in a license including several patents, the parties eliminate controversy as to which of the licensed patents are practiced, thus greatly simplifying accounting procedures as well as relieving the licensor of the necessity for careful policing of the licensee's activities, points which were adverted to by this Court in the *Automatic Radio* case in support of its holding. It appears beyond question that the decision of the Court of Appeals in the case at bar operates to cast a disturbing shadow on an important area of law which the *Automatic Radio* case would otherwise leave crystal clear.

3. The decision of the Court of Appeals in the case at bar is believed to be erroneous. The root of the error is the failure of the Court to separate the nature of a *patent right* enjoyed by a licensee from the *measure of consideration* paid by the licensee in return for the right. Thus a group of the patents may be licensed for a lump sum paid in advance. The licensee in such a case may never make use of any of the licensed patents, but it is clear that he buys the privilege to do so. The payment for the license right is customarily tied to the licensee's activities under

the license because it is felt that the licensor will more nearly receive an appropriate return, since the value of the intangible patent right will ordinarily be reflected in the amount of business which the licensor is able to do.

The Court of Appeals also overlooked the fact that, if General Time Corporation regarded its unexercised right to practice the "original four patents" as of no value, it could have written a new license contract with Parissi from which the four patents would be eliminated, thus avoiding the necessity for this litigation. The fact that it has continued to hold to the present license is indisputable evidence that it regards its license rights as constituting a valuable bundle of privileges, a fact which is borne out by an examination of the license contract itself. General Time Corporation paid an advance royalty of $5000 prior to the manufacture of *any* products. It is beyond belief that such a lump sum payment would have been made had General Time regarded its royalty payments as attributable to anything less than the combination of all rights included in the license.

4. A reading of the opinions of the Court of Appeals shows very clearly that Judges Clark and Biggs were moved strongly to reverse the District Court by a misplaced feeling of sympathy for Parissi. They felt that the inclusion in the license to General Time Corporation of the four patents covered by Parissi's prior contract with Padua was inadvertent and that to order payment of royalty to Padua was to hand it a windfall it did not deserve (R. 127). This view completely ignores the fact that under the present decision Parissi has gained a windfall which *he* does not deserve. He made valuable use of the four patents he had contracted to exploit only jointly with Padua. That they served him an important purpose is abundantly apparent from Parissi's own testimony. When asked by his counsel how it happened that he gave a license under

the four patents in question, Parissi's reply was: "Those are the only patents I had to offer" (R. 82). At the time the license was granted to General Time Corporation by Parissi the only four patents in existence were the four patents covered by his contract with Padua. That Parissi should now be permitted to escape scot-free from his contract with Padua and to keep for himself all the proceeds resulting from the exploitation of the four patents in question is manifestly an undeserved windfall.

Moreover, the Court of Appeals also ignored the fact that the licensing of the four patents to General Time Corporation damaged Padua. It made it impossible for Padua to grant an exclusive license or to sell the patents free of any right in General Time Corporation. Perhaps more important, however, is the fact that when Parissi licensed the four patents to General Time Corporation for a royalty of 5 cents per product, he had set an exceedingly low value on the licensed rights. Obviously, after that license had been entered into on such a low royalty rate as 5 cents, there could be no hope in the future of securing a more reasonable royalty from anyone else.

By an algebraic method the Court reached the conclusion that the three opinions amounted to a reversal of the District Judge. We respectfully suggest that the disagreement among three learned and experienced judges of the Court of Appeals for the Second Circuit strongly indicates the desirability of additional light upon the subject, a forthright determination of the issues, and a clear pronouncement upon the law. It is ironic that of the three judges of the Court of Appeals only one of them felt that Padua should lose the case, and yet that is the result if the present decision is permitted to stand.

Conclusion.

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

HERBERT W. KENWAY,
Counsel for Petitioner.

January 19, 1953.